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27 MAY 1963

MEMORANDUM FOR: Director of Central Intelligence

THROUGH: Deputy Director (Intelligence)

SUBJECT: U.S. Department of Agriculture Paper,
"The World Price of Sugar"REFERENCE: Memorandum for the Director of Central Intelligence,
from the Assistant Director, Research and Reports,
subject, "Cuban Activity in the World Sugar Market,"
dated 24 May 1963 (Top Secret Dinan)

1. This memorandum is for your information and background use in connection with the Standing Group meeting of 28 May. The attached paper, "The World Price of Sugar," was obtained today from Mr. James L. Sundquist, Deputy Under Secretary of the Department of Agriculture. This paper was prepared by the Department of Agriculture in response to National Security Action Memorandum No. 244, 15 May 1963, from Mr. [redacted] to the Secretary of Agriculture, on "The Future of the World Sugar Market," and will be discussed by the Standing Group tomorrow.

2. We are in general agreement with the Department of Agriculture's paper, which incorporates material from CIA/ONS publications furnished to Mr. Sundquist, as well as suggestions we made on his first draft. However, we did not see Tab B, "World Sugar Production by Major Countries," until today, and believe its forecast of the likely level of Cuban sugar production is too low. The comparative estimates are as follows, in thousands of short tons:

	<u>1963-64</u>	<u>1964-65</u>	<u>1965-66</u>
Department of Agriculture	3,600	3,400	3,300
CIA/ONS	4,600	4,800	5,000

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3. This difference in the estimated future Cuban crop does not affect the basic conclusions contained in the Department of Agriculture's paper.

4. Mr. Lundquist has not seen the referenced report on Cuban activity in the world sugar market. He is, therefore, unaware that the Cubans have been operating in the London futures market. Our latest information, covering transactions as of 7 May, is that the Cubans have sold at least 200,000 tons for delivery from December 1963 to August 1964. Further, they have liquidated their "long" position of 25,000 tons of sugar for near-term contracts. We know of at least three million pounds sterling put up to meet margin requirements by the Cubans. As of this date, these transactions appear to have resulted in a substantial net loss, which Cuba may recoup if there is a sharp price drop before the sugar futures contracts must be closed out.

5. In my referenced memorandum, we estimated Cuban foreign exchange earnings from 1963 sugar sales at \$120 to \$200 million from the Free World and \$175 to \$220 million from sales to Soviet Bloc countries and China. Recent press reports state that, during his recent Moscow visit, Castro was successful in persuading the Soviets to bring the price paid to Cuba into line with world prices for sugar, rather than the four cents a pound on which our earlier estimate was based. We do not know what "world price" will be agreed to, or whether the new price concession applies to all 1963 sales rather than to the undelivered balance. Further, there has been no Chinese or European satellite announcement of parallel price concessions to Cuba. However, if all of these countries agree to pay world prices on 1963 deliveries, and if the agreed world price were 10 cents a pound, then Cuban earnings from sugar sales to the Soviet Bloc and China would amount to between \$440 and \$550 million. This is probably an outside estimate, which cannot be refined until we receive more information.

6. The Soviet agreement to pay world prices for Cuban sugar makes it most unlikely that the USSR will sell significant quantities of sugar in the West from its surplus stocks. To the Cubans, the Soviet price concession means a substantial boost in export earnings, although the net benefits are less certain because Cuba has been

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receiving foreign exchange aid from the USSR, which amounted to over \$200 million in 1962. Possibly the new price concessions are designed to offset Cuba's payments deficit and eliminate the need for further balance of payments help from the USSR.

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OTTO E. QUINN
Assistant Director
Research and Reports

Enclosure:

"The World Price of Sugar"

Distribution:

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SECRETCopy No. 17
24, 1963**THE WORLD PRICE OF SUGAR**The Situation

The world price of sugar has risen to present levels because of a sharp drop in world supply in the face of steadily rising demand. The poor European beet crops of the last two years coincided with the severe reduction in Cuban production and the loss of most of that production to the communist bloc.

Cuban production has fallen from a 1961 level of 7.5 million short tons* to an estimated 3.8 to 4.2 million this year. Cuba has bartered more than this output to the Sino-Soviet bloc (3.3 million tons to the Soviet Union, 1.3 million to China, and 700,000 to the satellites), but has been permitted to sell about 1.25 million tons in the free world market so far this year. Following are world production and consumption figures, in millions of short tons:

Crop year	Production	Consumption	Stock change
1957-58....	49.1	49.0	+0.1
1958-59....	54.5	51.0	+3.5
1959-60....	53.9	53.0	+0.9
1960-61....	60.1	55.0	+5.1
1961-62....	56.0	57.0	-1.0
1962-63....	54.3	58.5	-4.2

While these figures suggest that the 1962-63 decline in stocks is only an adjustment from the earlier buildup, it is complicated by the fact that most of the 1960-61 buildup was in the Soviet Union and its satellites.

As always, the real shortage is intensified by scare-buying. Beginning late last year, sugar users and distributors in this country have added 600,000 tons to their stocks, and the buying rate since April 1 has been up 30 percent. Presumably, inventory-building is also going on in the other developed countries.

At the same time, some supplies are being held off the market in producing countries in anticipation of higher prices.

Among countries with heavy stocks is the Soviet Union, which has been taking most of the Cuban output even though it has not permitted enough rise in consumption levels to utilize the additional quantities.

* All figures in this report are in short tons.

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Its stocks at the end of 1962 are estimated at 4 to 4.5 million tons--about 50 percent above normal. Poland also had above normal supplies. The Soviet bloc, before it obtained the Cuban supplies, had been a net exporter of sugar.

Tab A shows recent price movements, Tab B charts world production and consumption, and Tab C breaks the production figures down by countries.

The Outlook

There is no prospect for relief in the tight supply situation until this year's beet harvest, at the earliest, and little prospect for a really easy balance between supply and demand for 3 or 4 years--assuming that a substantial additional Cuban supply does not re-enter the world market. It will probably be much longer before the world sugar price again reaches the low levels of last year.

Unfortunately, this year's beet crop in Western Europe got off to a slow start because of unfavorable weather and the yield may be again less than normal. Current high prices are encouraging some expansion in practically all areas of sugar beet and cane production, but bringing in new cane acreage requires 18 months and new beet acreage almost as long. No immediate large-scale expansion appears to be underway anywhere in the free world.

Scare-buying has probably not yet ended. At the time of the Korean crisis, inventory-building among U. S. users and distributors reached a million tons, and only 60 percent of that potential over-buying has occurred so far.

When the supply situation eases, prices can move downward as quickly as they have been moving up. The worst should be over when this year's beet crop is harvested in October. But a poor European crop could mean another year of extraordinary high prices. The futures market on deliveries for July and September 1964 has recently been rising rapidly, indicating that traders expect no real relief within 16 months which is far into the future as the market extends.

The Soviet Union could bring the world price down at any time by releasing its excess stocks for sale in the world market. If the world price began to fall without such action, Soviet dumping could accelerate the down trend. We have no evidence now, however, that the Soviet Union contemplates any substantial sales. It has been suggested that if an authoritative estimate of the size of Soviet stocks were made known, this alone might affect price.

Tabs B and C project anticipated world production and consumption and production by countries through 1965-66, and Tab D provides a commentary on prospects for expansion in the principal producing countries.

What might be done to alter this outlook is discussed under the headings which follow.

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Increasing Domestic Production

All restrictions on sugar beet acreage have been removed for 1963, 1964, and 1965. U. S. production of beet sugar this year should reach a record level of 2.9 million tons--compared to 2.6 million last year--and should increase further in the next two years. Processing capacity is being expanded from 3 million to at least 3.3 million tons by 1965. There appears to be no need for additional incentives beyond the prospective high prices.

Acreage restrictions on mainland cane have been removed for 1963 and 1964. This should result in enough additional production in Florida to fill the mainland cane quota under the Sugar Act. To remove restrictions for 1965, as has been done in the case of beets, would provide additional incentive to produce, but the production could not be marketed within the statutory quota. The producers would probably be willing to take the risk if assured by the Administration that it will recommend the necessary quota increase when the Sugar Act is revised next year.

Hawaii, Puerto Rico, and our offshore possessions have no restrictions on either acreage or marketing.

Increasing Foreign Supplies

This question breaks into three sub-questions:

Long-Range Expansion. Many parts of the world have potential for increased sugar production from cane, but bringing new acreage into production requires about 18 months. Opportunities also exist for expansion of production of beet sugar, which if started now could be accomplished in a slightly shorter time. Construction of processing capacity takes about the same length of time. New investment may take 20 years of reasonably good prices to pay off.

Spurred by present high prices, some countries are expanding production (See Tab D). However, they are held back by, among other things, uncertainty as to markets and prices in 1965 and thereafter. The United States is not in a good position to offer guarantees as to long-range markets. The Sugar Act contains limitations on each country in the form of country quotas. And, the global quota is reserved for returns to Cuba after Castro. We would indeed be embarrassed if we pushed other countries to fill the gap left by Cuba and then had to find room for resumption of Cuban deliveries. We would be embarrassed also if we pressed these countries to expand and the world price in a few years fell to levels approaching those of a year ago, when sugar production was being curtailed in many countries because it was unprofitable.

Even Philippine companies, which enjoy special access to the U. S. market because of a preferential tariff rate and a guaranteed quota until 1974, have been expressing reluctance to expand without assurances beyond that date.

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Short-Range Production Increases. On existing acreage, possibilities exist for improving cane yields per acre and increasing the recoverable quantities of sugar per ton of cane--by such means as increased use of fertilizer, modernization of existing mills, increased use of labor and improvement of cultural and factory practices. Moreover, where unused processing capacity exists, using that capacity requires only the investment necessary to add new acreage or substitute more productive for less productive land. With an attractive market opportunity for any increased output, these immediate short-range measures appear to be appropriate areas for United States assistance. AID and USDA are asking the AID missions and agricultural attaches to explore immediately the possibilities of, and need for, dollar and technical assistance for short-range measures. The Export-Import Bank has also been advised of the desirability of actions in these directions.

Pressure for Release of Supplies. Where supplies are being held off the market in anticipation of still higher prices, diplomatic pressure might be effective. State has already made strong representations to Manila in an attempt to pry loose some stocks that are known to be held there.

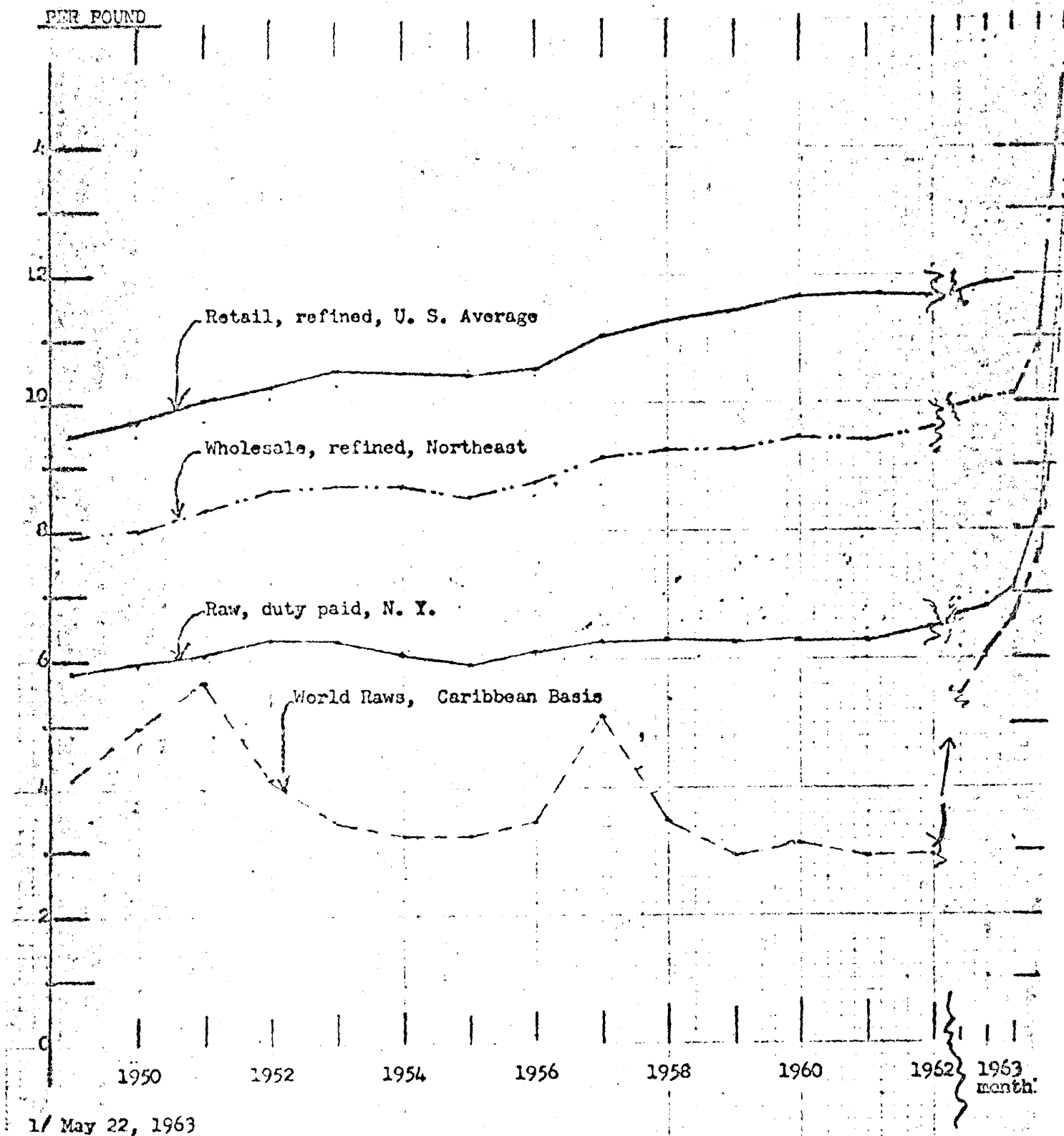
Restraints on Demand

Inventory-building and scare-buying are difficult to deal with on a world-wide scale. To impose controls in the United States alone would have an effect on the world price, of course, but besides being highly controversial and unpopular, controls would require legislation and administrative machinery--with all the delay they would involve. The sugar companies have been doing some informal allocation of supplies among their customers, but stocks in the hands of industrial users and wholesalers and retailers are probably close to a million tons compared to a normal level of 400,000.

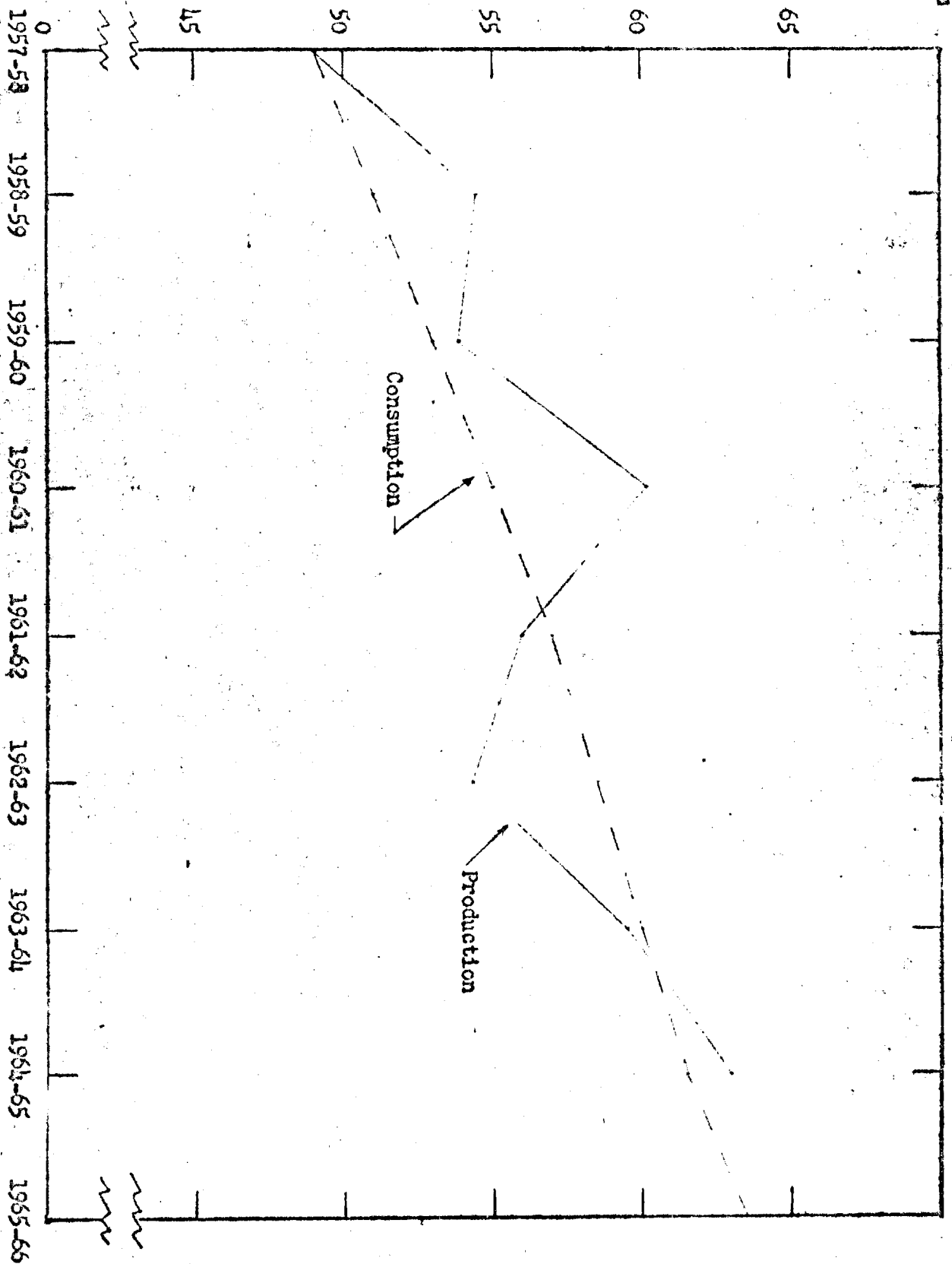
If housewives were to panic, severe additional price pressures could develop. So of this date, however, there has not been any sustained run on the grocery stores.

Some minor benefit might come from revising regulations, mainly those of the Food and Drug Administration, which limit the amount of sugar substitutes--primarily, corn sirup--which can be used in certain products. However, corn sirup production capacity is currently strained to the point where the principal producers have been declining additional orders--so this avenue offers no major hope of immediate relief.

SUGAR PRICES — RAW AND REFINED



Million
short
tons



Consumption for 1957-58 through 1962-63 represents trend based on data from the International Sugar Council.

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WORLD CENSITIFUAL SUGAR PRODUCTION BY MAJOR COUNTRIES
(1,000 Short Tons)

<u>Country</u>	<u>1960-61</u>	<u>1961-62</u>	<u>1962-63</u>	<u>1963-64</u>	<u>1964-65</u>	<u>1965-66</u>
United States ^{1/}	5,297	5,426	5,662	6,165	6,390	6,500
Cuba	7,459	5,400	3,800	3,600	3,400	3,300
Dominican Republic	962	960	900	1,000	1,100	1,200
Mexico	1,603	1,649	1,791	2,000	2,100	2,200
West Indies (British)	950	941	1,027	1,100	1,100	1,200
Other	<u>951</u>	<u>1,050</u>	<u>967</u>	<u>1,115</u>	<u>1,210</u>	<u>1,300</u>
Total, North America	17,270	15,426	14,147	15,000	15,300	15,600
Argentina	903	754	858	975	1,000	1,025
Brazil	3,004	3,928	3,533	4,200	4,300	4,400
Peru	891	904	827	950	975	1,075
Other	<u>1,392</u>	<u>1,396</u>	<u>1,574</u>	<u>1,600</u>	<u>1,825</u>	<u>1,800</u>
Total, South America	6,907	6,982	6,792	7,725	8,100	8,400
EEC Countries	7,590	5,641	5,448	5,650	6,100	6,400
United Kingdom	1,082	906	902	1,000	1,050	1,100
Other	<u>1,935</u>	<u>1,798</u>	<u>1,580</u>	<u>1,850</u>	<u>1,950</u>	<u>2,000</u>
Total, Western Europe	10,607	8,325	7,930	8,500	9,100	9,500
Eastern Europe	5,228	4,710	4,319	4,600	4,900	5,100
USSR	6,600	7,300	6,900	7,500	7,850	8,200

^{1/} Including Puerto Rico and the Virgin Islands

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<u>Country</u>	<u>1960-61</u>	<u>1961-62</u>	<u>1962-63</u>	<u>1963-64</u>	<u>1964-65</u>	<u>1965-66</u>
Mauritius	360	610	672	700	750	800
South Africa	1,052	1,174	1,274	1,350	1,550	1,650
Other	<u>1,208</u>	<u>1,209</u>	<u>1,277</u>	<u>1,450</u>	<u>1,700</u>	<u>1,850</u>
Total Africa	2,520	2,993	3,223	3,500	4,000	4,300
 Australia	 1,504	 1,512	 2,018	 2,300	 2,450	 2,650
India	4,042	3,775	3,177	3,700	4,000	4,200
Philippines	1,563	1,668	1,805	1,950	2,000	2,100
Taiwan	1,018	800	1,100	1,200	1,350	1,400
Other	<u>2,816</u>	<u>2,588</u>	<u>2,911</u>	<u>3,520</u>	<u>3,950</u>	<u>4,050</u>
Total, Asia and Oceania	10,945	10,283	11,011	12,675	13,750	14,400
 World Total	 60,077	 56,020	 54,322	 59,500	 63,000	 65,500

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Explanatory Notes to accompany table on

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World Sugar Production by Major Countries and Continents,
1960-61 - 1965-66

With the exception of Cuba, sugar production is expected to increase in all important producing countries through 1965-66.

The expected increase in world production from 1962-63 to 1965-66 is considerably larger than expected increase in consumption. The expected production increase in non-communist areas is about 9,000,000 tons, 3 times that for communist countries.

Cuba-- Further decreases expected for the next 3 years because of economic and political confusion, loss of trained personnel, and inability to properly repair mills and farm machinery which originally came from the United States. The decline, however, is expected to be at a considerably slower rate than in 1961-62 and 1962-63.

United States-- Expected to increase by nearly 1,000,000 tons by 1965-66, primarily in the sugar beet and mainland sugarcane areas. Limited resources restrict expansion possibilities in Hawaii and Puerto Rico.

Dominican Republic-- 1962-63 output reduced by economic and labor difficulties. Moderate expansion expected over the next 3 years.

Mexico-- Plans have been announced for expansion but most is consumed domestically and quantity available for export will increase considerably more slowly than production.

West Indies (British)-- Modest increases expected.

Brazil-- Potential for increase in large. Actual increases will be limited by the uncertain economic outlook, but even so a substantial increase is projected.

Peru-- Limited supplies of irrigation water are a factor restricting the increase.

Common Market (EEC)-- A considerable part of the 1,000,000-ton increase that is projected will represent recovery from the low yields of 1961-62 and 1962-63. The projected 1965-66 production is well below the bumper output of 1960-61. However, excess production in 1960-61 caused considerable economic difficulty in the beet industry and indications are that these countries wish to avoid over-expansion again.

United Kingdom-- Expected to increase to approximately the size of the bumper 1960-61 crop.

East Europe-- An increase of about 800,000 tons by 1965-66 will leave output still slightly below the unusually large 1960-61 crop.

USSR-- Further substantial increases planned, and considerable equipment for beet sugar mills has recently been purchased in West Europe.

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Mauritius-- Substantial increase expected as the industry recovers further from the disastrous hurricane of 1960-61.

South Africa-- Nearly all of the expected increase is likely to be available for export, most of it to the United Kingdom.

Australia-- Australian producers have an excellent record of applying science and technology in their industry.

India-- Low production in 1962-63 was the result of government policy initiated because of surpluses in previous years. A change of policy has been announced to encourage the production of more sugar.

Philippines-- A larger increase would be likely, except for the changed conditions which will follow termination of the United States-Philippine trade treaty in 1974. This is reported to be discouraging new long-term investments in the Philippine sugar industry.

Taiwan-- Expansion possibilities are limited by the small amount of new land suitable for sugarcane production.